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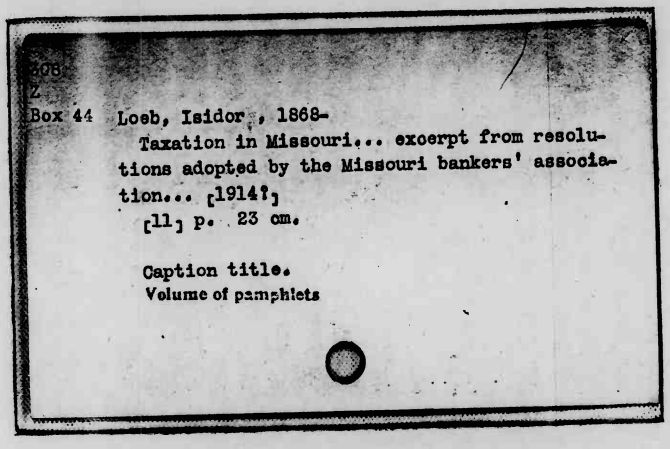
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TAXATION IN MISSOURI

BY DR. ISIDOR LOEB,
Dean of School of Commerce and Administration,
University of Missouri, Columbia, Missouri.

Excerpt from Resolutions Adopted by the Missouri Bankers' Association.

"Be It Further Resolved, That the President of the Missouri Bankers' Association be, and he is hereby authorized to appoint a special committee of three members for the purpose of bringing this matter (condition of revenue laws, and provision for appointment of a Tax Commission) to the attention of the next General Assembly; of doing whatever may be necessary to secure favorable action on the proposition from the Assembly; and of enlisting the support and co-operation in this work of the other important business organizations of the State."

TAXATION IN MISSOURI

I. THE EXISTING SITUATION.

1. The General Property Tax System.

The revenue laws of Missouri provide for the taxation of all property real and personal. Assessors, elected in each county, are required to assess all property "according to its true value in money." A county board of equalization is provided for the purpose of reviewing the acts of the county assessor and this board is required to increase or reduce assessments so that all property shall be assessed at the "real" or "true" value. Finally, a state Board of Equalization, consisting of the Governor, Secretary of State, State Auditor, State Treasurer, and Attorney General is authorized to review the acts of the county boards of equalization and is required to increase or reduce the assessments in the different counties so as to

bring them to their "true value." Upon the assessment as finally fixed by the State Board of Equalization there are levied the rates of taxation established for state, county, and other local purposes, the same rate being levied upon all classes of property.

This system, which is known as that of the general property tax, has been in existence in Missouri since its introduction in the early history of the state. It is based upon the supposition that a man's property is a good basis for estimating his ability to pay taxes. It is also assumed that the locally elected assessor can and will find and estimate the value of all kinds of property and that the boards of equalization can and will correct errors made by the assessors and secure the enforcement of the law requiring that all property shall be assessed at its true value.

2. Unequal Distribution of Burden of Tax.

It is doubtful whether the general property tax as outlined above has ever been adequately enforced in Missouri. In its early history when conditions were quite primitive it is probable that it was fairly well administered. Practically all property was tangible in character, its value was easy to determine, and great inequalities did not arise.

As the state grew in population and wealth the situation became more complicated. Property values increased, new forms of property appeared and the problem of assessment became increasingly difficult. The local county assessors were unable to meet the new situation and they received little if any assistance from the boards of equalization.

As a result, much property escaped assessment and there was a great lack of uniformity in the assessments which were made. As the rate of taxation is the same for all, it follows that inequalities in the assessment lead to corresponding inequalities in the distribution of the burden of the tax. Those whose property is assessed relatively too high pay an excessive share of the tax; those assessed on a relatively low basis are subject to less than their just share of taxation, while those whose property escapes the assessment entirely are able to evade all of their taxes and the burden upon others is thus necessarily increased.

3. Lack of Uniformity in Assessments.

The failure of assessors and boards of equalization to secure the enforcement of the law for the assessment of property at its true value and the consequent lack of uniformity in taxation have been recognized for a long time. Attention has been called to this deplorable condition by successive governors and state auditors. Two state Tax Commissions have been appointed to investigate and make recommendations regarding the tax situation in this state. The reports of both of these commissions as well as the testimony of other officials agree in pointing out glaring inequalities in the assessment of property for taxation. The following paragraphs taken from the report of the Tax Commission of 1903 show the condition existing at that time:

> **"Reports were received from ninety-eight counties and the City of St. Louis. These would be indeed startling if some of the facts stated therein had not been previously known. They show a condition of affairs that should no longer be permitted to continue.**
>
> **"It is within the bounds of truth to say that no two counties in the State have the same rule for the assessment of all classes of property, and, generally speaking, there is absolutely no uniformity as to the proportion of the actual cash value taken as the basis for the assessed value.**
>
> **"Some counties value real estate, so these reports show, as low as thirty per cent. of its selling price, while others have a ninety per cent. basis. Some assess real estate at thirty-three and one-third per cent., money and credits at one hundred per cent. and tangible personal property at fifty per cent.**
>
> **"There is an absolute want of equality in taxation according to the replies received from the officers, and the absence of any uniform rule throughout the State for assessing property.**
>
> **"It results from this condition that some counties contribute more than their part to the State's expenditures, while others are charged with less than their share."**

As the recommendations of the Tax Commission were not carried out the situation has not improved but has become worse since 1903. As a rule property located in a city is assessed higher than that located in rural districts. This is due to the fact that the constitutional limitations on the rate of city taxes makes it necessary to increase the assessments in order to secure sufficient revenue for city purposes. As assessment is the same for all taxation it results that property in cities pays taxes on a higher assessment not only for the city but also for state, county, and school purposes.

The evidence makes it clear that there is great lack of uniformity in the assessment of property for taxation. While the rate of taxation is the same for all property variations in the rate of assessed value to real value mean differences in the proportionate share of taxes paid. Of two persons each owning property of the actual value of $1,000, the one whose property is assessed at 60%

of its real value will pay three times as much in taxes as the one whose property is assessed on a 20% basis. This illustrates the condition existing within many counties and as among the several cities and counties of the State. It leads to a highly inequitable distribution of the burden of taxation which was not contemplated by the constitution or laws of the State and offends our sense of right and justice.

4. Evasion of Tax on Intangible Property.

Lack of uniformity in taxation under present conditions arises not only from inequality in assessments but also from the fact that certain kinds of property entirely escape the assessor, and are not assessed for taxation. Land, houses, machinery, horses, cattle, merchandise, furniture, etc., are visible, cannot be concealed and as a rule are assessed for taxes. On the other hand money, notes, bonds and stocks are known as intangible property which may be hidden or sent out of the State and thus escape assessment and taxation. This has always been true but in the early history of the general property tax the amount of this class of property was so small that its evasion of taxation was not of material consequence. Today, however, the situation is quite different as the actual value of intangible property constitutes an enormous aggregate, the greater part of which entirely escapes assessment.

The following table showing the assessed valuations of property in Missouri for the taxes of 1914 furnishes striking evidence of the fact that a large amount of intangible property escapes assessment and taxation:

MISSOURI ASSESSMENT FOR TAXES OF 1914.

Class of Property	Ass'd Val.	Ass'd Val.	Percent of Total
Land, acres	$ 469,929,518		
Town lots	777,125,044		
Total Real Property		$ 1,247,054,562	64.06
Live stock	$ 85,024,955		
Money, notes, and bonds	116,679,706		
Corporate Companies	84,277,991		
Merchants and Manufacturers	127,578,298		
Other personal property	90,776,742		
Total Personal Property		504,337,692	25.90
Railroad, bridge, telegraph and telephone property		195,170,293	10.04
Total assessed value of all property		$1,946,562,547	

In the above table "Money, notes and bonds" and "Corporate Companies" represent intangible personal property whose total assessment aggregates $200,957,697. It is impossible to indicate how much of the class "Other personal property" is intangible but it is probable that only a small amount is of this character. Assuming that it amounts to $20,000,000 we have $220,957,697 as the assessed value of all intangible personal property. This is only 11.35 per cent. of the total assessed value of all property. It is not possible to make any approximate estimate of the true value of all the intangible property in the state. It is significant, however, that the deposits of individuals in state and national banks in Missouri on June 4, 1913, aggregated $464,655,629 or more than double the above assessed value of all intangible property. Taking into consideration the large amount of mortgages, bonds, promissory notes, and other securities, it is clear that the overwhelming proportion of intangible personal property escapes assessment and taxation.

The above table is significant of the tendency under a general property tax system to shift the greater part of the burden of taxation upon real property. As more than one-half of the railroad, bridge, telegraph and telephone property falls under this head it follows that real property bears more than 70 per cent. of the burden of the general property tax.

5. Failure to Produce Adequate State Revenue.

One of the essential requisites of a system of taxation is capacity to produce revenue adequate for all necessary public needs. During the present year the failure of the state revenues to meet the necessary appropriations for state institutions has directed public attention to this defect in our system of taxation. The present condition is only an acute phase of a situation which has existed for many years during which the state has been prevented from undertaking important activities by reason of the general inadequacy of state revenue.

Few people realize how slight is the burden of state taxation in Missouri. One may think that his taxes are high but he usually overlooks the fact that about 95% of this amount is for county, city, and school purposes. The total tax rate for state purposes in Missouri is only 18 cents on the $100 assessed valuation. Of this amount 3 cents is used for interest on the public debt leaving 15 cents for general revenue of which one-third is returned to the counties for public school purposes. Hence of the State tax on property only 10 cents on the $100 assessed valuation is used for the current needs of the state. A man with a farm or house assessed for $1,000 pays one dollar in taxes for state purposes. As the assessed value ranges from 20% to 50% of the real value the burden of taxation for state purposes averages less than 4 cents on the $100 real value of property or less than one-twenty-fifth of one per cent.

That the burden of state taxation in Missouri is relatively as

well as absolutely slight is shown by the following table of comparative tax rates for state purposes and assessed valuations of property for the year 1914:

State	Tax rate for State Purposes on $100 assessed value	Assessed Values of Taxable Property
Illinois	70 cents	$ 2,422,361,952
Indiana	38⅔ cents	1,939,876,166
Iowa	49 cents	932,476,912
Kansas	12 cents	2,804,789,903
Minnesota	47½ cents	1,369,000,000
Missouri	15 cents	1,946,562,547

Kansas is the only state whose tax rate is lower than Missouri, but it will be noted that the assessed value of property in Kansas is nearly one billion dollars in excess of that in Missouri. This is due to the fact that in Kansas property is assessed at its full value while in Missouri the average is less than 40% of the real value. As 12 cents on full value is equal to 30 cents on a 40% valuation, the actual burden of state taxation in Kansas is double that in Missouri. This is further shown by the fact that in 1914 the state tax on property brought into the general revenue fund of Missouri only $2,711,222 as compared with $3,345,712 in the state of Kansas.

In some states the problem of adequate state revenue has been solved by increasing the tax rate for state purposes. Thus, for example, in Illinois, the rate was increased to 70 cents of which 13 cents was for public school purposes and 10 cents for the state University. In Missouri the legislature cannot increase the rate of taxation as the Constitution provides that the tax rate for state purposes cannot exceed 15 cents on the $100 assessed valuation. Kansas also has retained a low tax rate but has secured adequate revenue by increasing the assessed value of property to its full value. In Missouri the legislature has provided by statute for the assessment of property at "its true value," but this law has not been enforced and property is assessed at different rates in different counties but in all cases much below its real value.

The explanation of the failure to enforce the laws of Missouri requiring property to be assessed at its true value is to be found in the character of the administrative machinery provided. Property is assessed for taxation by an assessor elected in each county. In many cases the assessor has had no experience in methods of valuing property and thus through lack of knowledge fails to enforce the law. In most cases, however, the local assessor consciously keeps down the assessment so that his constituents will not be required to pay as large a proportion of the state tax. As the state tax is so small it would seem that this motive would not be a strong one but experience proves the contrary. Some assessors are influenced by the knowledge of low assessments in neighboring counties and the great majority follow the practices and traditions of their predecessors in office.

The assessor is not alone to blame. His assessment lists are passed upon by the county board of equalization made up of the judges of the county court, the county surveyor, and assessor. These are all locally elected officials and are subject to the same influences as the assessor. In most cases if the assessor increased assessments to the true value they would be reduced by the county board of equalization. In no case do these boards undertake to enforce the law requiring property to be assessed at its true value.

Finally the assessments in each county as equalized by the county boards of equalization must be passed upon by the State Board of Equalization consisting of the Governor, State Auditor, State Treasurer, Secretary of State, and Attorney General. This body, however, has not been able to secure the enforcement of the law requiring assessments to be at full value. In the first place the members are busy with the duties of their respective offices and do not have sufficient time to devote to the difficult problem of state equalization of values. They do not have sufficient knowledge of the condition affecting values throughout the state and are unprovided with adequate means for securing the necessary information. Finally, under a decision of the Supreme Court the State Board of Equalization cannot increase or diminish the assessment of individuals or specific pieces of property but is limited to changes in the aggregate value of property or of classes of property within a county.

II. REMEDIES PROPOSED.

1. A State Tax Commission.

During the last twenty years there has been a tendency among states to abandon the **ex officio** Boards of Equalization which have failed to enforce laws regarding assessments and to substitute for them appointed Tax Commissions whose members give all of their time to the supervision of local assessors and the equalization of property values for purposes of taxation. Appointed Tax Commissions now exist in 30 states. In 5 states Tax Commissions are elected while in 4 states they are made up partly of appointed and partly of **ex officio** members. Only 9 states including Missouri retain the antiquated **ex officio** Boards of Equalization made up of state officials who have other important duties.

The State tax commissions are not all of equal effectiveness. The most efficient type is a commission of 3 members appointed by the Governor for a period of 6 years who devote their entire time to the duties of their office. The Tax Commission should have general supervision over the administration of all laws for the assessment and collection of taxes with power of compelling the performance of legal duty by local tax officials. It should have full powers to investigate local assessments and to make re-appraisements by

its own appraisers. It should have authority to hold state and district meetings of local assessors for the purpose of instruction in methods of assessment. The Tax Commission would also be able to submit recommendations to the legislature from time to time concerning desirable changes in the revenue laws of the state.

The establishment in Missouri of a State Tax Commission with adequate powers would result at once in the enforcement of the law regarding assessments at full value and would thus relieve the critical situation created by the existing inadequacy of state revenue. This is indicated by the following figures which show the changes secured in the assessed value of property in five states which established effective tax commissions.

Assessed value of property before and after establishment of effective State Tax Commissions.

State	Year	Total Ass'd Val.
Kansas—	1907	$ 425,281,214
Tax Commission	1908	2,451,560,397
established in 1907	1914	2,804,461,476
Michigan—	1899	968,189,087
Tax Commission	1900	1,335,109,918
established in 1899	1912	2,317,561,634
Ohio—	1910	2,484,315,574
Tax Commission	1911	6,201,303,588
established 1910	1914	7,614,000,000
West Virginia—	1905	277,000,000
Tax Commission	1906	875,000,000
established in 1905	1914	1,270,645,125
Wisconsin—	1899	648,035,848
Tax Commission	1900	746,022,932
established in 1899	1901	1,436,284,000
	1912	2,466,636,793

It may be urged that the assessment of property at full value would produce more revenue than is needed by state and local governments. In such event the legislature could either lower the rates of taxation or could provide for levying the taxes upon only a certain per cent of the assessed valuation. At present, however, no alternative exists for the present condition of inadequacy of state revenues.

Equally important is the fact that a State Tax Commission would largely remove the lack of uniformity in assessments among cities, counties, individuals, and different classes of property. Adequate information for such purposes could be secured and local or personal considerations would be eliminated. It is only in this way that the uniformity of taxation guaranteed by the constitution can be secured.

2. Classification of Intangible Personal Property.

While a State Tax Commission would be able to secure a better administration of the law providing for the taxation of intangible personal property, it would not be able to prevent the evasion of the tax on the great mass of such property. The experience of all states has shown that it is impossible to tax intangible property adequately under a general property tax.

Many students of taxation believe that intangible personal property should not be taxed as such. Notes, bonds, stocks, and mortgages are merely evidences of interests in property which itself is subject to taxation. Hence, it is argued, that the taxation of these intangible instruments will result in double taxation of the same property. If a man owns a farm assessed for $3,000, he will pay taxes only on that amount. If, however, he borrows $2,000 and gives a mortgage on his farm for that amount, the law provides for the taxation of the $2,000 mortgage as well as the $3,000 assessed on the farm. As no new value has been created, it is claimed that there is double taxation on $2,000.

It is also claimed that the taxation of notes, bonds, and mortgages causes an equivalent rise in the rate of interest as money will leave the state unless it can receive a return as high as in other states. But an increase in the rate of interest means that the burden of the tax falls upon the borrower though the tax may be collected from the lender. The man who loans the money may pay the tax on the mortgage but as the interest which he receives is increased at least enough to compensate him for such payment the owner of the farm who has borrowed the money in the end bears the burden of the tax. He would not otherwise be able to borrow the money as the lender would send it to other states where it would not be subject to the tax.

The people, however, have not been willing to exempt intangible property from taxation. In many states stringent laws have been passed for enforcing the taxation of such property. While temporarily increasing the assessments of intangible property the ultimate result has been a failure in every case. It is easy to understand this failure. In many cases the interest on notes and bonds does not exceed five per cent. The total tax rate for state and local purposes ranges from 2½ to 3½ per cent. A tax rate of 2½ per cent. upon a note or bond for $1,000 which bears 5% interest would amount to $25 or one-half of the income. If we assume that the note is assessed at only one-half of its actual value the tax would amount to 25% of the income from the note which is an intolerable burden and far in excess of the burden of such tax upon the income from other property. The owner of the note or bond will either take his property out of the state, insist upon a higher rate of interest, or conceal his ownership and make a false return of his property to the assessor. As many adopt the latter plan, the law is brought into contempt and the moral sense of the community is lowered.

Some states have recognized the logic of the situation by classifying property for taxation. Real estate and tangible personal property are placed in one class and intangible personal property in the other. While the former are subject to the general property tax, the latter is exempt from that but subject to a special tax in lieu of all other taxes. In the case of notes and bonds secured by mortgages, the tax is collected at the time the mortgage is recorded so that there is no chance to escape the tax. Stocks and other intangible property not secured by mortgage are exempt from the general property tax provided they are publicly recorded and pay a recording fee of the same amount as the recording tax on mortgages. The recording tax is usually one-half of one per cent. As this is not a confiscatory rate, the owners of stocks prefer to pay the fee rather than to evade the law or remain under the possibility of becoming subject to the general property tax.

In the states which have adopted some method of classifying intangible personal property for the purpose of special taxation, it has been found that the amount of revenue secured from this source has been enormously increased without causing any rise in interest rates.

Minnesota has had for a number of years a mortgage recording tax which produces about $500,000 annually. Money and credits other than mortgages are also subject to a special tax. In 1910, when money and credits were subject to the general property tax, the total assessment was $13,919,806 levied upon 6,200 persons and producing a revenue of $379.754. In 1914, under the new law 72,-266 persons were assessed $196,548,307 and paid in taxes $589,644.

In New York state a revenue of $3,704,648 was produced by the mortgage recording tax in 1912 as compared with $935,291 derived from the general property tax on mortgages in 1906.

The following figures for the tax on bonds and stocks in Baltimore, Maryland, show the effect of a special low rate upon intangibles as compared with a high rate under a general property tax:

Year	Ass'm't.	Tax Rate per $100	Revenue
1896	$ 6,000,000	$2.17¾	$130,650
1897	58,703,795	.47¾	280,310
1915	208,431,712	.45	937,942

It will be seen from the above that a system of classification of intangible personal property for taxation results in a largely increased revenue. This revenue, moreover, is distributed among a very large number of persons instead of falling upon a few who are too honest or too weak to evade the general property tax.

The introduction of a plan of classification of this nature in Missouri would not only relieve the present serious situation in state finances but would also bring about a much more equitable system. Under existing conditions the greater part of notes, bonds, stocks, etc., escape taxation so that the total revenue from this source is relatively small. By imposing a special low rate upon such property the assessment would be so largely increased that the revenue received would be more than doubled. In the language of the Minnesota Tax Commission "the new law would reduce the premium on dishonesty and permit men to be truthful * * * without fear of having their property confiscated in excessive tax rates." This plan would also benefit those persons who now give in a true list of their intangible property and are subject to the full tax rate while the great majority of persons pay nothing on such property. It would promote honesty, increase the revenue of the state and lead to a more equitable apportionment of the burden of taxation.

Other features of our system of taxation are open to criticism but these which have been discussed are of the most vital importance. The establishment of a state tax commission will do away with the inequitable and unjustifiable inequality in assessments throughout the state. The people of Missouri do not believe in inequality in taxation. They do not think one man's property should be assessed at a higher rate than that of another nor that property in one county should bear a heavier burden of state taxation than that which obtains in another county. They will support any plan which will remove these evils and lead to equal assessments in county and state. A state tax commission will not only accomplish this result but will, by an enforcement of the law regarding assessments, increase the general revenue of the state so that it will be adequate for the necessary support of the departments of state governments and state instituions.

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